

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, IT & MANAGEMENT

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STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESES

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

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ROLE OF FINANCIAL TECHNOLOGY IN ERADICATION OF FINANCIAL EXCLUSION

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ABSTRACT

In rural parts of the country majority of population are "unbanked" i.e. they don't have access to the formal financial services and hence poor people are forced to rely on money lenders (informal finance providers) or on their relatives or family. Money lenders adopt coercive practices in lending; they provide money at much higher rates as compared to the formal financial institutions. So as to protect the poor people Indian Government and the RBI framed a policy of "financial inclusion". This paper aims at identifying the role of financial technology adopted by banks in eradication of financial exclusion and initiatives by RBI and Government.

KEYWORDS

Banks, Financial Inclusion, Financial Technology.

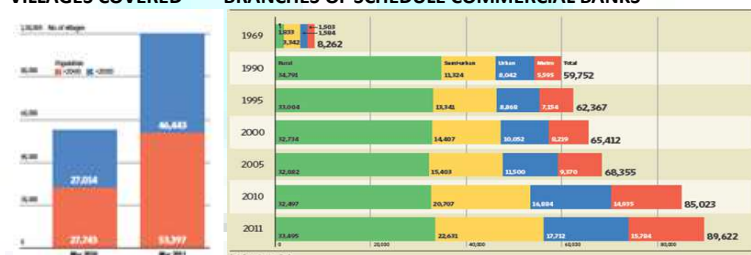
INTRODUCTION

Poverty is one of the burning problems of India mainly visible in the rural parts of the country. Earlier financing the poor in India was very difficult as timely credit at affordable cost was not available and rural areas lacked access to financial services. But in the year 2005-06 rural banking got a ray of hope when policy on financial inclusion through Business Correspondent (BC) model was announced. Financial Inclusion is aimed at increasing the reach to the poor and un-served people and providing them the banking services in a fair and transparent manner. By getting financial services they will be able to save money which would ultimately lead to reduction of poverty. Poor people were ignored as the transaction cost required for serving these un-served customers were high for bankers. Through this model cost will be reduced and by doing so business opportunities for bankers in the rural areas will increase leading to benefits for poor people.

CURRENT SCENARIO OF BANKING INDUSTRY IN INDIA

Urban areas are getting maximum access to banking facilities as compared to that of rural areas. As per 2001 census in order to provide financial inclusion 72,721 villages with population of 2,000 or more were identified. Today around two-third i.e. 67 per cent of urban household are getting banking services while just little over half i.e. around 54 per cent of rural household have access to banking facilities as per the data from Census 2011 by House listing and Housing Census data. According to finance ministry bank branches are available in only about 5 per cent of nearly six lakh villages in the country.

TABLE 1: SCENARIO OF BANKING INDUSTRY
VILLAGES COVERED BRANCHES OF SCHEDULE COMMERCIAL BANKS



Source: Financial Inclusion | A road India needs to travel accessed from <http://www.livemint.com/2011/09/21211250/Financial-Inclusion--A-road-I.html>

TECHNOLOGICAL MOVEMENT IN BANKING SECTOR

Most Indian banks are now accepting the new responsibilities of financial inclusion and penetration into the rural sector to serve the less privileged. High mobile penetration and inadequate banking facilities are accelerating the growth of mobile banking in India. It is a huge opportunity for banks to offer innovative banking and payment services. With the technological movement, banks prefer servicing their customers at their doorsteps and at their convenience. This not only gives them an opportunity to service larger customer base but also reduces their transaction costs.

TABLE 2: VARIOUS TECHNOLOGY-BASED INITIATIVES UNDERTAKEN BY INDIAN BANKS

Operational Efficiency:	Straight-through-processing, Transformation of service channels, Collaborative channel management strategy, Branchless banking for financial inclusion, Business correspondents
Governance & Risk Management:	Enterprise risk management, Real-time executive dashboards, Real time security management, Risk based authentication
New solutions:	Mobile phone based banking application, Social media support
Regulatory / Compliance:	IRFS, UID readiness, Data flow Automation
Customer centricity:	Customer analytics, Efficient customer data management

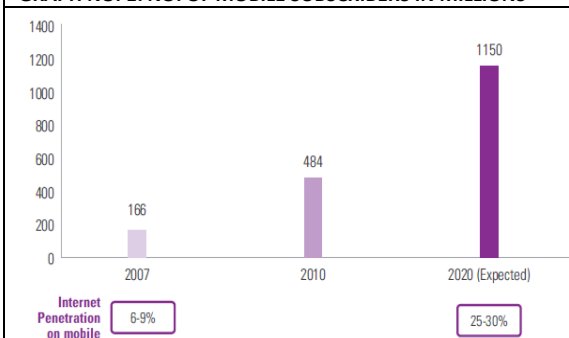
Source: www.iba.org.in/events/ITEnabled%20FinInclApproachPaper.pdf

TABLE 3: CHANNEL INTERACTION MIX ACROSS CUSTOMER SEGMENT

	Branch Banking	Internet Banking	Mobile Banking	ATM/ Kiosk	IVR / Call Centre	Branch Correspondents / RM
Rural Banking – Urban Customers	Medium	High	High	High	High	Low
Rural Banking – Non- Urban Customers	High	Medium	High	Medium	Medium	Medium
Financial Inclusion Segment	High	Low	Medium	Low	Low	High

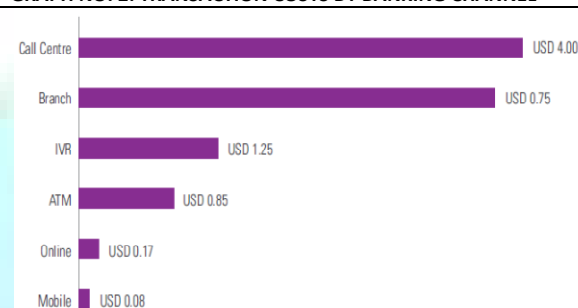
Source: Technology enabled transformation in Banking – KPMG 2011

GRAPH NO. 1: NO. OF MOBILE SUBSCRIBERS IN MILLIONS



Source: BCG, IBA and FICCI Report on Indian Banking 2020

GRAPH NO. 2: TRANSACTION COSTS BY BANKING CHANNEL

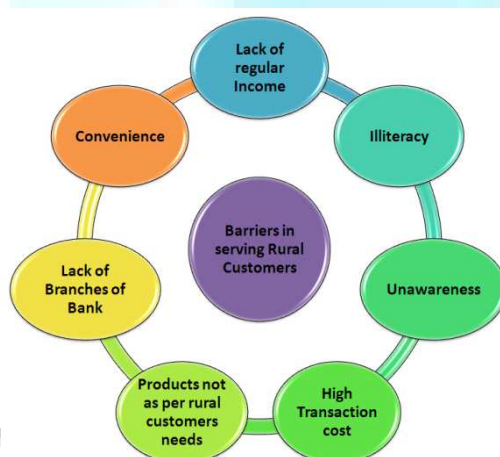


Source: Tower Group, Fisery, Mcom data, 2009

BARRIERS IN SERVING RURAL CUSTOMERS

Major factors hindering the financial institutions in serving the rural customers are lack of regular income as most of the customers still rely on agriculture for their basic earning. People in rural areas are uneducated and hence they do not understand the importance and benefits of formal methods of financial assistance as compared to the financial assistance obtained from informal sources such as money lenders. Unaware about the availability of financial services and products is very low resulting in hindrance for the financial institutions in serving rural consumers.

For banking and other financial services institutions the transaction cost for providing the services to rural customers is very high besides this they do not have the products tailored to the needs of the customers of rural areas. In rural regions there are many places which are 'un-banked' i.e. they do not even have any branches of banks and hence reaching the customers become difficult. And even for the rural people the convenience is very less due to lack of branches in their areas.



INITIATIVES TOWARDS ERADICATING FINANCIAL EXCLUSION: RBI

NO-FRILLS ACCOUNTS: Account which can be opened with very low or nil balance was an initiative launched in November 2005.

RELAXATION ON KNOW-YOUR-CUSTOMER (KYC) NORMS: Since August 2005 for small accounts KYC requirements for opening a bank account were relaxed. The Reserve Bank has given instructions to the banks to make accessible all printed material used by retail customers in English, Hindi and the concerned regional language.

ENGAGING BUSINESS CORRESPONDENTS (BCS): RBI permitted banks to appoint business facilitators (BFs) and business correspondents (BCs) who act as intermediaries in providing Banking and financial services since January 2006. Banks were permitted to utilize the services of non-governmental organizations (NGOs/SHGs), micro-finance institutions and other civil society organizations as intermediaries

USE OF TECHNOLOGY: banks have been advised to make use of information and communications technology (ICT) to address the problem of reaching and credit delivery in rural and remote areas.

GENERAL CREDIT CARDS (GCC): This facility up to Rs.25, 000 at their rural and semi-urban branches was introduced to provide hassle-free credit to customers.

KISAN CREDIT CARDS (KCC): It provides support short-term credit needs of the farmers through which farmers can purchase the necessary inputs required for farming purpose.

SIMPLIFIED BRANCH AUTHORIZATION: Since December 2009 domestic scheduled commercial banks were permitted to freely open branches in tier III to tier VI centres with a population of less than 50,000 to address the issue of uneven spread of bank branches under general permission, subject to reporting.

OPENING OF BRANCHES IN UNBANKED RURAL CENTRES: Banks have been mandated to allocate branches in the unbanked rural areas. For opening more bricks and mortar branches banks were required to open at least 25% of the total number of branches during a year

INITIATIVES TOWARDS ERADICATING FINANCIAL EXCLUSION: BANKS AND ORGANIZATIONS

INDIAN BANK: For migrant workers, socially excluded people underprivileged as a part of its urban financial inclusion initiative Indian bank opened a branch at Dharavi, Mumbai and today the bank out of 1168 slums has covered around 932 under this initiative.

SBI: The bank launched "SBI Tiny card" as its initiative towards eradication of financial exclusion. SBI Tiny accounts can be opened with nil balance and does not require any KYC documents to open the account. SBI by using IT enabled solutions is benefiting 367,530 households of 506 villages by assisting 24,502 SHGs. SHG members are provided micro insurance & Investment, kiosk banking by SBI.

THE UNION BANK OF INDIA: On May 21 2011 announced the launch of "*unioninclusions*", an initiative to expand the financial inclusion. Bank launched 5 Financial Inclusion schemes: Opening of Financial Inclusion branches – 11 branches, Facility for migrant labour by Biometric card-to-card remittance, To reach unbanked villages - Mobile Van Banking, To spread financial literacy - Comic book series and Solar Powering of Union Adarsh Gram.

HDFC BANK: It leads in the list of private sector banks in area of financial inclusion among the with a disbursement of over `6 billion customers, 45,000 Self Help Groups (SHGs), it has a reach over 700,000 poor people. Recently HDFC bank has tied up with Vodafone to start its bank services to be distributed through its M-Paisa platform as a financial inclusion initiative. When this initiative starts in full swing sets a target of acquiring 10 million customers.

KARNATAKA BANK: Is planning to open 20 brick-and-mortar financial inclusion branches which will take care of credit disbursement and opening of accounts in the villages having population above 2000 by March 2013

PNB: They have adopted branchless banking model wherein they have more than 3,800 business correspondents to reach unbanked areas. PNB adopts technological backbone to offer all its financial inclusion products and using smart card along with biometric features they have designed its own delivery channel.

ICICI BANK: It serves more than 450,000 customers across 18 states; through biometric enabled smart cards and mobile banking they have created micro credit & saving opportunities for rural population.

SEED Financial Services: Initiated "*Rohtak project*" is a no-frills savings account facilities for Social Security Pensions. They inculcated among the villagers the saving habits in the unbanked areas and helped in providing door-step banking to beneficiaries of pensioners.

Pahal: An NGO has created linkage between banks, SHGs and the rural poor and is most active organization in area of financial inclusion. In Uttarakhand region it has supported over 3000 micro-enterprises and income generation activities.

Atom Technologies: Cash @ POS solution for Union Bank of India was developed by them. Through this system withdrawal of cash is possible from Point of Sale terminal at a merchant location. First Cash @ POS terminal was deployed at Jamburi Habsi village in Madhya Pradesh, in the villages of MP and UP. Total 11 machines have been deployed where even ATM machines were not available. They have identified new 55 places to deploy the project.

Financial Inclusion Network and Operations (FINO): For many banks and insurance companies it acts as Business Correspondent and offers wide variety of financial services to more than 65,536 villages through its 10,000 plus agents covering around 22 states.

VARIOUS CAMPAIGNS TOWARDS FINANCIAL INCLUSION

"Swabhimaan" campaign was launched in 2010-11 to provide access of banking services to habitations having population in excess of 2000 through Business Correspondents.

"Aadhaar" initiative was undertaken with an aim of facilitating financial inclusion and reducing information gap.

"JEEViKA" also known as Bihar Rural Livelihood Project (BRLP) was launched by Central Bank of India in 2007. The Central Bank of India, under JEEViKA, accounts for 28.74% of the total SHG accounts opened and more than 30% of the total credit share.

"Sarve/Swayam Shakti Suraksha" project was undertaken by Bajaj Allianz Life Insurance with an aim to provide opportunity to save and to cover the impending liability of customers it has enrolled 1.8 million customers during its first year.

"Tatkaal Baithaks", a unique insurance awareness campaign was initiated by DLF Pramerica Life Insurance and they have covered over 93 villages and 25,000 customers in Bihar, Orissa and East Uttar Pradesh.

"Biz Connect" project was undertaken by Mahindra & Mahindra with an aim of reducing the challenge of rural connectivity. Under this program with the help of cloud computing secured internal networking was possible and that ensuring security for the rural customers.

APPROACHES FOR IMPLEMENTING FINANCIAL INCLUSION

The common strategies adopted by RBI, various banks and Organizations for eradicating the financial exclusion are as under:

- Reaching the rural population
- Creating Awareness: Saving & Investment options
- Use of Financial technology: Ease of use & availability
- Educating: Use of technology or service utilization



BENEFITS OF FINANCIAL INCLUSION

- Banking facility will be available in isolated areas
- Products and services customized as per the need of un-banked customers at their location.
- Upgradation of infrastructural facilities in the rural areas.
- Maximises the reach of bank's financial inclusion services in untapped areas.
- Fulfilment of social responsibility of banks by introducing the common man to the technology
- Economies of operation can be achieved as the transaction cost is low.
- Competitive advantage for the banks by tapping the huge customer segment.
- Enhancing loyalty towards authenticate financial services providers.

CONCLUSION

Financial exclusion exaggerates the poverty because poor people are not finding the affordable and authorized financial solutions. To ensure the better chances of prosperity in the society, financial inclusion of under privileged people is really needed. Understanding of role of financial technology is of paramount importance to create awareness among rural people. Unless and until they realize the need of authenticated financial service providers and have trust on them, they will not take initiatives so creating awareness is must for financial inclusion. Now-a-days Government and RBI are also using technology to tap the unserved market and by this way they are constantly reducing the transaction and operational cost. Technological solutions can be utilized as an effective tool in eradicating financial exclusion and it can help in reducing the barriers faced by banks and financial institutions in serving the un-banked areas.

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